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## BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

DEC - 4 2007

MIKE GLEASON - Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF  
WATCO, INC. FOR APPROVAL OF  
FINANCING.

DOCKET NO. W-20475A-06-0357

IN THE MATTER OF THE APPLICATION OF  
WATCO, INC. FOR APPROVAL OF A  
PERMANENT RATE INCREASE.

DOCKET NO. W-20475A-06-0550

DECISION NO. 70055ORDER

Open Meeting  
November 27 and 28, 2007  
Phoenix, Arizona

**BY THE COMMISSION:**

On May 30, 2006, Silverwell Service Company ("SSC") d/b/a Watco, Inc. ("Company" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application requesting Commission approval of a financing application.

On August 31, 2006, the Company filed with the Commission an application for a permanent increase in its water rates and charges.

Notice of the finance and rate applications was given by publication and by mailing.

Additionally, on August 31, 2006, SSC and the Company filed with the Commission an application for the approval of the sale of SSC's assets and transfer of SSC's Certificate of Convenience and Necessity ("Certificate") to the Company.<sup>1</sup>

<sup>1</sup> See Decision No. 69391 (March 22, 2007) in which the Commission approved the application of SSC and the Company for the sale of SSC's assets and transfer of its Certificate to the Company. This Decision describes the manner in which Mr. Mark Grapp personally acquired the assets of SSC in 1996, continued utility operations and ultimately transferred the assets to the Company, which is an Arizona corporation in good standing and is owned by Mr. Grapp. As a result of Decision No. 69391, SSC's docket number of W-01979A was extinguished and the utility now operates under Docket No. W-20475A which is assigned to the Company. Therefore, the docket number originally assigned to the Company in its financing application of W-01979A-06-0357 was changed to W-20475A-06-0357 as it appears above.

1 On September 29, 2006, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division  
2 ("Staff") issued a notice of insufficiency to the Company.

3 On November 13, 2006, the Company filed a Motion to Consolidate ("Motion") its rate,  
4 financing, and the sale and transfer proceedings. In its Motion, the Company agreed to the  
5 suspension of the timeclock rules applicable to the rate proceeding to allow sufficient time for Staff  
6 to evaluate the various applications.

7 On November 22, 2006, Staff filed its response to the Company's Motion.

8 On November 30, 2006, by Procedural Order, the Commission consolidated the financing  
9 application and the rate application into one proceeding with the timeframe suspended. The sale and  
10 transfer proceeding was not consolidated and resulted in Decision No. 69391.

11 On April 11, 2007, after the Commission issued Decision No. 69391, Staff issued a notice of  
12 sufficiency to the Company on the rate application and classified it as a Class D utility.

13 On September 24, 2007, Staff filed separate Staff Reports recommending that Staff's  
14 proposed rates and charges be approved and that the Company's financing application be approved.  
15 No comments or objections were filed by the Company to Staff's recommendations.

16 \* \* \* \* \*

17 Having considered the entire record herein and being fully advised in the premises, the  
18 Commission finds, concludes, and orders that:  
19

### 20 **FINDINGS OF FACT**

21 1. Pursuant to authority granted by the Commission, Applicant is an Arizona corporation  
22 engaged in the business of providing water service to an area approximately six miles northeast of  
23 Show Low in Navajo County, Arizona.<sup>2</sup>

24 2. Applicant's present rates and charges for water were approved in Decision No. 66175  
25 (August 13, 2003).

26 \_\_\_\_\_  
27 <sup>2</sup> The Company consists of two separate systems located in two adjacent sections of land, the Bourdon Ranch system with  
28 approximately 29 customers and the Silver Lake system with approximately 258 customers. At present, the systems are  
not interconnected, but if the financing application in this proceeding is approved, a portion of the funds will finance the  
interconnection of the two systems.

3. On May 30, 2006, the Company filed an application requesting financing approval of \$600,000 in long-term debt.

4. On August 31, 2006, the Company filed an application requesting authority to increase its rates and charges for water service.

5. Applicant provided notice to its customers of its application for a proposed rate increase and its financing application by first class U.S. mail and by publication and, in response thereto, two comments have been received by the Commission.

6. On November 30, 2006, by Procedural Order, the proceedings were consolidated and the time frame was suspended.

7. On April 11, 2007, Staff filed notice that the Company's rate application had met the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

8. During the test year ended December 31, 2005 ("TY"), Applicant served 289 metered customers who were all served by 5/8" x 3/4" meters.

9. Average and median water usage by residential users during the TY were 4,938 and 3,317 gallons per month, respectively.

10. Staff conducted an investigation of Applicant's proposed rates and charges for water service and filed its Staff Report on the Company's rate application request on September 24, 2007, recommending that Staff's proposed rates and charges be approved. Staff also recommended that the Company's service line and meter installation charges be adjusted and its other service charges be modified consistent with Staff's recommendations. Staff further recommended approval of the Company's financing application.

11. The water rates and charges for Applicant at present, as proposed in the application, and as recommended by the Staff are as follows:

	Present Rates	Proposed Rates Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$ 14.55	\$ 27.50	\$ 22.00
3/4" Meter	22.00	41.25	33.26
1" Meter	40.00	68.75	60.48
1 1/2" Meter	74.00	137.50	111.89

1	2" Meter	118.00	220.00	128.00
	3" Meter	221.00	412.50	330.00
2	4" Meter	369.00	687.50	550.00
3	6" Meter	738.00	1,375.00	1,100.00

GALLONAGE CHARGES:

(per 1,000 gallons)

6	0 to 3,000	N/A	N/A	\$ 3.00
	3,001 to 10,000	N/A	N/A	4.00
7	Over 10,000	N/A	N/A	5.00
	0 to 4,000	\$ 2.25	\$ 3.75	N/A
8	4,001 to 20,000	2.50	4.00	N/A
9	Over 20,000	3.00	4.50	N/A

10	Bulk Water Rate (per 1,000 Gallons)	N/A	\$ 6.50	\$ 5.00
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SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	Present Rates	Company Proposed	Staff Proposed		
			Services	Meters	Total
13	5/8" x 3/4" Meter	\$ 290.00	\$ 0.00	\$ 0.00	\$ 0.00
14	3/4" Meter	320.00	220.00	100.00	320.00
	1" Meter	370.00	245.00	125.00	370.00
15	1 1/2" Meter	545.00	275.00	270.00	545.00
	2" Meter	750.00	300.00	450.00	750.00
16	3" Meter	980.00	340.00	640.00	980.00
17	4" Meter	1,820.00	600.00	1,220.00	1,820.00
	6" Meter	3,920.00	1,060.00	2,860.00	3,920.00

SERVICE CHARGES:

20	Establishment	\$ 25.00	\$ 25.00	\$ 25.00
	Establishment (After Hours)	40.00	40.00	40.00
21	Reconnection (Delinquent)	25.00	25.00	25.00
22	Reconnection (Delinquent-After hours)	N/A	60.00	37.50
	Meter Test (If Correct)	35.00	50.00	35.00
23	Deposit	*	45.00	45.00
	Deposit Interest	*	*	*
24	Reestablishment (Within 12 Months)	**	**	**
	NSF Check	20.00	30.00	20.00
25	Deferred Payment (Per Month)	1.50%	18.00%	1.50%
26	Meter Reread (If Correct)	20.00	25.00	20.00
	Late Fee	1.50%	18.00%	1.50%
27	Fire Sprinkler System	***	***	***

1           \*       Per Commission rule A.A.C. R-14-2-403(B).

2           \*\*       Number of months off system times the monthly minimum per Commission rule  
3           A.A.C. R14-2-403(D).

4           \*\*\*       1% of monthly minimum for a comparable sized meter connection, but no less than  
5           \$5.00 per month. The service charge for fire sprinklers is only applicable for service  
6           lines separate and distinct from the primary water service line.

7           12.       Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined  
8           to be \$136,280 which is the same as its original cost rate base. The Company's FVRB reflects an  
9           \$5,483 increase by Staff to Applicant's proposed FVRB due in large part to an adjustment to  
10          Applicant's cash working capital totaling \$8,159.

11          13.       In the Staff Report, the Applicant is described as one of five companies owned and  
12          operated by Mr. Grapp from an office located at 340 N. 9<sup>th</sup> Street in Show Low, Arizona. Four are  
13          Commission regulated public water companies as follows: Watco, Inc.; Cedar Grove Water, Inc.; A.  
14          Peterson Water Company; and Vernon Valley Water, Inc. The fifth company, Cedar Grove Water  
15          Management Company, is a management entity.<sup>3</sup>

16          14.       Staff found that Mr. Grapp shares services to manage and operate all five companies.  
17          Shared service expenses accounted for approximately 70 percent of the Company's TY expenses.  
18          The shared expenses include, but are not limited to the following: employee salaries, including Mr.  
19          Grapp's; transportation; office space; office supplies; utilities; computers; computer software;  
20          telephones; insurance; and other miscellaneous services.

21          15.       Staff reviewed the allocation methodology used by Applicant and found that the  
22          Company allocates some expenses based on a single factor (i.e., the number of customers per  
23          regulated utility) and allocates other expenses on a 50/50 split between Applicant and Cedar Grove  
24          Water, Inc. Since the primary goal of cost allocation is to prevent or limit, as much as possible, any  
25          cross-subsidization of customers from one company by customers of another company, the single  
26          factor allocation methodology that the Company uses is inappropriate because it always results in the  
27          utility company with the largest number of customers (i.e., Applicant) paying the largest amount of

28          <sup>3</sup> Additionally, Mr. Grapp owns a payroll company, Four Star Land Development that processes payroll for the four  
regulated companies, but is not located at the same office as the other five companies.

1 the allocated cost regardless of any direct causal relationship between the number of customers and  
2 that cost.

3 16. Staff noted that inequities resulted in the areas of the owner's salary allocation, rental  
4 allocation, the insurance allocation, transportation allocation and office expenses.

5 17. Staff cited principles contained in the National Association of Regulatory  
6 Commissioners ("NARUC") Guideline for Cost Allocations and Affiliate Transactions ("GCAAT").

7 18. Using NARUC's GCAAT, Staff identified four relevant cost drivers of the Company's  
8 shared indirect expenses. The equally weighted factors used in calculating the general allocation  
9 percentage are as follows: direct labor hours of employees; direct operating expense; number of  
10 customers; and net plant.

11 19. Staff's calculation of the four-factor general allocation percentage is shown on  
12 Schedule CSB-3 of the Staff Report. Staff states that this methodology produces a more equitable  
13 allocation of shared indirect expenses because it more closely follows NARUC's GCAAT of  
14 identifying relevant cost drivers and utilizing direct costs which Staff utilized to make adjustments of  
15 the Company's TY operating expenses. Staff recommended that the Company use NARUC's  
16 GCAAT in the future to determine the Company's indirect shared expenses.

17 20. Staff decreased Applicant's TY operating expenses by \$22,152 primarily due to  
18 adjustments caused by applying NARUC's GCAAT to the Company's expense items. The following  
19 expenses were substantially reduced by Staff: salaries and wages (\$8,901); office supplies and  
20 expenses (\$1,269); outside services (\$1,368); rents (\$2,742); transportation expense (\$1,921);  
21 liability insurance (\$1,603); taxes other than income (\$4,564); and depreciation expense (\$1,384).  
22 These decreases were somewhat offset by a Staff increase to expenses for water testing (\$1,599).<sup>4</sup>

23 21. Applicant's present water rates and charges produced adjusted operating revenues of  
24 \$91,837 and adjusted operating expenses of \$89,689 which resulted in operating income of \$2,148  
25 during the TY or an 1.58 percent rate of return on FVRB.<sup>5</sup>

26  
27 <sup>4</sup> Staff also made an adjustment to below the line expenses by increasing interest expenses by \$37,201 to reflect the  
interest expense on the \$600,000 in long-term debt requested in Docket No. W-20475A-06-0357.

28 <sup>5</sup> This equates to a 2.34 percent operating margin. -----

1           22.     The water rates and charges Applicant proposed would produce operating revenues of  
2 \$173,572 and adjusted operating expenses of \$89,711 resulting in net operating income of \$83,861.  
3 This is a 61.54 percent rate of return on FVRB. Staff notes that the Company has too small a rate  
4 base to earn a meaningful rate of return and while the Company's net operating income equates to a  
5 48.32 percent operating margin, a higher operating income is required to meet what will be a high  
6 debt service requirement.

7           23.     The water rates and charges proposed by Staff would produce adjusted operating  
8 revenues of \$141,873 and adjusted operating expenses of \$89,711 resulting in net operating income  
9 of \$52,162 or a 38.28 percent rate of return on FVRB. Staff notes this rate of return is not  
10 appropriate if the requested loan is not approved. Staff's revenue requirement will allow the  
11 revenues needed to meet the 1.2 debt service coverage ("DSC") ratio required to pay the requested  
12 debt in the Company's financing application.<sup>6</sup>

13           24.     Applicant's proposed rate schedule would increase the average monthly customer  
14 water bill by 78.6 percent, from \$25.90 to \$46.25, and the median monthly customer water bill by  
15 81.5 percent, from \$22.01 to \$39.64.

16           25.     Staff's recommended rates would increase the average monthly customer water bill by  
17 49.6 percent, from \$25.90 to \$38.75, and the median monthly customer water bill by 46.6 percent,  
18 from \$22.01 to \$32.27.

19           26.     According to the Staff Report, the Silver Lake system had a water loss of 14.5 percent  
20 in 2005. In Decision No. 66175, Applicant was ordered to monitor its Silver Lake system and  
21 annually report the number of meters replaced and the annual non-account water as a percentage of  
22 water pumped for each month. The first report was due April 15, 2004, and reporting was to continue  
23 until the water loss is no less than 10 percent, but in no case continue less than three years.

24           27.     The Staff engineer's report, which is attached to the Staff Report, stated that Decision  
25 No. 68657 (April 12, 2006), approved a request for an extension of Applicant's Certificate of  
26 Convenience and Necessity, and ordered that the Company secure financing for the interconnection  
27

28 <sup>6</sup> This equates to a 36.77 percent operating margin.

1 of its two systems. According to Staff's engineer, the Bourdon Ranch system with its well and  
2 25,000 gallons of storage capacity can serve up to 43 connections and only has 29 connections and  
3 the Silver Lake system with its well and 100,000 gallons of storage capacity can only serve up to 242  
4 connections due to well limitations, but if the two systems are interconnected, the combined water  
5 production and storage will meet current existing customers' needs and support reasonable growth as  
6 well.

7 28. According to Staff, the Company is in compliance with the Commission's rules and is  
8 current in the payment of its sales and property taxes.

9 29. The Company has a well for each system and each produces water which is well  
10 below the new maximum standard allowed for arsenic. According to documentation from the  
11 Arizona Department of Environmental Quality ("ADEQ"), the wells are delivering water which  
12 meets the requirements of the Safe Drinking Water Act.

13 30. The Company had its Curtailment Tariff approved by the Commission in 2002 and its  
14 Backflow Prevention Tariff in 2003.

15 31. With its financing application, the Company is requesting Commission approval of  
16 long-term debt in the amount of \$600,000 with a loan from the Water Infrastructure Finance  
17 Authority ("WIFA") to fund needed system improvements.

18 32. Staff conducted an investigation of Applicant's proposed long-term financing and  
19 filed its Staff Report on the Company's financing application request on September 24, 2007.

20 33. According to the Staff Report, the Company is requesting the Commission's approval  
21 to borrow \$600,000 from WIFA to fund the first phase of system improvements and system  
22 reliability in the following manner: by partially funding a 500,000 gallon storage tank; by  
23 constructing an interconnection between the Company's Silver Lake and Bourdon Ranch systems so  
24 that water from the Company's two systems can be better utilized to service customers; and by  
25 continuing to replace old meters on its systems. The WIFA loan will be supplemented with Company  
26 funds to cover the total estimated costs of Phase I improvements estimated to be \$876,590.



1           34.     A second phase of improvements is planned for the future to upgrade distribution lines  
2 and to add fire hydrants with adequate fire flow in the service area.

3           35.     Staff states that the Company indicates the proposed debt will be secured by general  
4 revenue with increased rates.

5           36.     The proposed long-term financing will be repaid over 20 years at 6.30 percent interest.

6           37.     Based on a projected interest rate of 6.30 percent, Staff projects monthly payments of  
7 approximately \$4,400 per month, which can be readily paid from the Company's cash flow based on  
8 Staff's proposed rates.

9           38.     According to Staff, if Staff's proposed rates are approved, the Company's cash flow  
10 will provide Applicant with a Times Interest Earned Ratio ("TIER") of 1.40 and DSC of 1.29. This is  
11 sufficient cash flow to support the Company's total debt request.

12           39.     Staff states that a TIER greater than 1.0 means that operating income is greater than  
13 interest expense.

14           40.     Staff states that a DSC greater than 1.0 or more indicates sufficient cash to cover debt  
15 obligations.

16           41.     Based on the Staff Report, the Company's DSC represents the number of times  
17 internally generated cash will cover required principal and interest payments on long-term debt.

18           42.     According to the Staff Report, the TIER represents the number of times earnings will  
19 cover interest expense on long-term debt. A TIER less than 1.0 is not sustainable in the long term,  
20 but does not necessarily mean that debt obligations cannot be met in the short term.

21           43.     Staff found the three construction projects proposed for the Company's system to be  
22 reasonable and necessary. Staff is recommending approval of the Company's application for the  
23 issuance of debt in the amount of \$600,000 subject to the terms and conditions described in the  
24 application.

25           44.     Staff is additionally recommending that the Commission order the following:

- 26           • that Applicant notify its customers of the approved water rates and charges and their  
27 effective date by means of an insert in the monthly billing which precedes the month  
28 in which they become effective and file a copy of the notice sent to its customers with  
the Commission's Docket Control as a compliance item in this docket;

- that Applicant file, within 30 days of the effective date of this Decision, as a compliance item in this docket, with the Commission's Docket Control, a copy of the schedule of its approved rates and charges;
- that the Company maintain its books and records in accordance with the NARUC Uniform System of Accounts ("USOA");
- that the Company adopt and utilize NARUC's GCAAT as described in Findings of Fact No. 17 above to determine the Company's indirect shared expenses;
- that the Company continue to monitor its system and, in compliance with Decision No. 66175 dated August 13, 2003, annually report to the Commission the number of meters replaced and the water loss data including quantity of water pumped, gallons sold and water loss percentage for each month. The company shall file its first report with Docket Control, as a compliance item in this docket, within six months of the effective date of the Decision in this case, and should reduce its water loss to 10 percent or less by December 31, 2009;
- that before the authorized rates become effective, the Company file with Docket Control, as a compliance item in this docket, a copy of the ADEQ Certificate of Approval to Construct ("ATC") or a letter from ADEQ that an ATC is not required for the interconnection line. In addition, Staff recommends that the Company submit the ADEQ Approval of Construction for the interconnection project by June 1, 2008;
- that long-term debt not to exceed \$600,000 obtained from WIFA be authorized provided that the authorized rates are comparable to those recommended by Staff and projected to produce a DSC of at least 1.29;
- that the Company engage in any transactions and execute any documents to effectuate the authorizations requested with the application;
- that the Company file, within 60 days of execution, with the Commission's Docket Control, as a compliance item in this docket, copies of all notes and other documents related to the transaction;
- that the Company adopt the depreciation rates delineated in Exhibit 3 of the Engineering Report attached to the Staff Report on a going forward basis; and
- that Applicant, in addition to the collection of its regular rates and charges, collect from its customers their proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

45. Because an allowance for the property tax expense of Applicant is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure the

1 Company shall annually file, as part of its annual report, an affidavit with the Utilities Division  
2 attesting that the company is current in paying its property taxes in Arizona.

3 46. On October 31, 2007, the Company filed a copy of ADEQ's ATC for the  
4 interconnection of its Bourdon Ranch and Silver Lake systems as recommended above by Staff.  
5 Accordingly, this compliance item has been met and is no longer required.

6 47. Under the circumstances, after our review of the applications and the Staff Reports, we  
7 believe Staff's proposed rates are reasonable and should be adopted. We also believe that the  
8 Company's financing application should be approved in an amount not to exceed \$600,000, and that  
9 the remainder of Staff's recommendations as stated above should be adopted.

### 10 CONCLUSIONS OF LAW

11 1. Applicant is a public service corporation within the meaning of Article XV of the  
12 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301 and 40-302.

13 2. The Commission has jurisdiction over Applicant and of the subject matter of the  
14 applications.

15 3. Notice of the applications was provided in the manner prescribed by law.

16 4. Under the circumstances discussed herein, the rates and charges proposed by Staff and  
17 authorized hereinafter are just and reasonable.

18 5. The proposed long-term financing is for lawful purposes within Applicant's corporate  
19 powers, is compatible with the public interest, with sound financial practices and the proper  
20 performance by Applicant of service as a public service corporation, and will not impair Applicant's  
21 ability to perform that service.

22 6. The financing application approved hereinafter is for the purposes stated in the  
23 application and is reasonably necessary for those purposes, and such purposes are not, wholly or in  
24 part, reasonably chargeable to operating expenses or to income.

25 7. Staff's recommendations, as set forth in Findings of Fact No. 44, are reasonable and  
26 should be adopted.

27 . . .  
28

ORDER

IT IS THEREFORE ORDERED that the Watco, Inc. is hereby directed to file, with Docket Control, as a compliance item in this docket, on or before December 1, 2007, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$ 22.00
3/4" Meter	33.26
1" Meter	60.48
1 1/2" Meter	111.89
2" Meter	128.00
3" Meter	330.00
4" Meter	550.00
6" Meter	1,100.00

GALLONAGE CHARGES:

(per 1,000 Gallons)

0 to 3,000	\$ 3.00
3,001 to 10,000	4.00
Over 10,000	5.00
Bulk Water Rate (per 1,000 Gallons)	\$ 5.00

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Services</u>	<u>Meters</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 0.00	\$ 0.00	\$ 0.00
3/4" Meter	220.00	100.00	320.00
1" Meter	245.00	125.00	370.00
1 1/2" Meter	275.00	270.00	545.00
2" Meter	300.00	450.00	750.00
3" Meter	340.00	640.00	980.00
4" Meter	600.00	1,220.00	1,820.00
6" Meter	1,060.00	2,860.00	3,920.00

SERVICE CHARGES:

Establishment	\$ 25.00
Establishment (After Hours)	40.00
Reconnection (Delinquent)	25.00
Reconnection (Delinquent-After hours)	37.50
Meter Test (If Correct)	35.00
Deposit	45.00

1	Deposit Interest	*
2	Reestablishment (Within 12 Months)	**
3	NSF Check	20.00
4	Deferred Payment (Per Month)	1.50%
5	Meter Reread (If Correct)	20.00
6	Late Fee	1.50%
7	Fire Sprinklers	***

\* Per Commission rule A.A.C. R-14-2-403(B).

\*\* Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\*\* 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective on December 1, 2008, for all water service.

IT IS FURTHER ORDERED that the Watco, Inc. shall notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert, in a form acceptable to Staff, in the next regular monthly billing and file a copy of the notice when sent to its customers with the Commission's Docket Control as a compliance item in this docket.

IT IS FURTHER ORDERED that Watco, Inc. shall comply with each of the recommendations appearing in Findings of Fact No. 44.

IT IS FURTHER ORDERED that Watco, Inc. maintain its books and records in compliance with the NARUC USOA.

IT IS FURTHER ORDERED that Watco, Inc. be, and the same hereby is, authorized to issue long-term debt in an amount not to exceed \$600,000 for a term of 20 years at no greater rate of interest than 6.30 percent per annum.

IT IS FURTHER ORDERED that Watco, Inc. is hereby authorized to engage in any transactions and to execute any documents necessary to effectuate the authorization granted hereinabove and file, within 60 days of the close of the transaction, with the Commission's Docket Control, as a compliance item in this docket, copies of all executed loan documents certifying that the transactions have been completed.

1 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Watco,  
2 Inc. using the proceeds for the purposes set forth in the application.

3 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
4 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
5 proceeds derived thereby for purposes of establishing just and reasonable rates.

6 IT IS FURTHER ORDERED that Watco, Inc., in addition to the collection of its regular rates  
7 and charges, shall collect from its customers their proportionate share of any privilege, sales, or use  
8 tax as provided for in A.A.C. R14-2-409(D).

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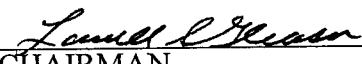
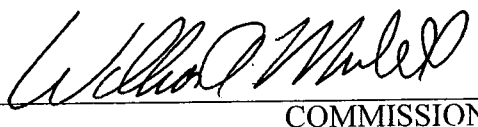


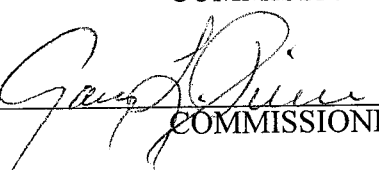
27 ...

28 ...

IT IS FURTHER ORDERED that Watco, Inc. shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

 CHAIRMAN	 COMMISSIONER
 COMMISSIONER	 COMMISSIONER
	 COMMISSIONER

IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 4th day of Dec, 2007.

  
DEAN S. MILLER  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

MES:db

1 SERVICE LIST FOR: WATCO, INC.  
2 DOCKET NOS.: W-20475A-06-0357 and W-20475A-06-0550  
3

4 Mark Grapp  
WATCO, INC.  
5 P. O. Box 1270  
Show Low, AZ 85902  
6

Christopher Kempley, Chief Counsel  
7 Legal Division  
ARIZONA CORPORATION COMMISSION  
8 1200 West Washington Street  
Phoenix, AZ 85007  
9

Ernest G. Johnson, Director  
10 Utilities Division  
ARIZONA CORPORATION COMMISSION  
11 1200 West Washington Street  
Phoenix, AZ 85007  
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